

2003) a claim for a declaration of non-infringement makes a counterclaim for patent infringement compulsory, and since Schinzing failed to assert a counterclaim for infringement he waived his right to bring the counterclaim and is forever barred from asserting the claim in future litigation. (A-8)

The court of appeals' reversal of the damage award was based in part on the termination provision of the license agreement that provides, in relevant part, that:

Upon termination of this agreement for any reason, [Mid-State] may after the effective date of such termination sell all Licensed Products in stock and complete construction of all Licensed Products in the process of manufacture at any time of termination and sell the same, provided that [Mid-State] shall pay to [S/S Products] royalties o such Licensed Products as specified in this Agreement.

(A-8)

The court of appeals' vacation of the district court's ruling that the patent was not invalid with respect to inventorship, prior publication and public use and vacation of the ruling that Mid-State breached the license agreement were based on the court's understanding that the district court should have conducted a patent validity analysis by comparing the claims of the patent to the students' proposals, the student report and the student demonstration. (A-4, A-5)

REASONS FOR GRANTING THE PETITION

This petition should be granted because the decision of United States Court of Appeals for the Eighth Circuit is in conflict with decisions of the Supreme Court and those other United States Courts of appeals on the same important matters.

1. Compulsory counterclaim.

In reversing the district court's denial of Mid-state's motion for an amendment to the judgment which would add a declaration of non-infringement, the court of appeals apparently lost sight of the fact that Rule 13 is particularly directed against one who failed to assert a counterclaim in one action and then instituted a second action in which that counterclaim became the basis of the complaint. *Southern Constr. Co. v. Pickard*, 371 U.S. 57, 60, 83 S.Ct. 108, 110, 9 L.Ed.2d 31, 34 (1962). This guidance from the Supreme Court has resulted in a series of decisions by courts of appeals focused on the rule's prohibition against instituting a new action based on claims that were compulsory in a prior action. For example, see *Dillard v. Security Pac. Brokers, Inc.*, 835 F.2d 607, 609 (5th Cir. 1988); *Hydranamics v. Filmtech Corp.*, 70 F.3rd 533, 536 (9th Cir. 1995); *Avemco Ins. Co. v. Cessna Aircraft Co.*, 11 F.3rd 998, 1001 (10th Cir. 1993).

This guidance from the Supreme Court has also resulted in recognition that the rule is intended to encourage litigation of a compulsory claim in the court in which it is required to be brought. *United States v. Eastport Steamship Corp.*, 255 F.2d 795, 802 (2d Cir. 1958). ("The compulsory counterclaim rule requires that once the action was commenced in the Court of Claims that court was the only proper forum for the adjudication of any claims by the

Government arising out of the transaction or occurrence that was the subject matter of Eastport's petition.")

This understanding of rule 13 is consistent with rule 15 which provides for amendments to pleadings at any time, even after judgment. In this case, however, the court of appeals adopted an interpretation of the rule that prevents Schinzing from moving for leave to amend his pleadings to add the required counterclaim of infringement, thus eliminating the possibility of litigating the claim in the court where it is compulsory. This petition should be granted so that Schinzing and others who fail to initially fail to plead a compulsory counterclaim can be assured of having the benefit of an opportunity amend their pleadings under rule 15 when that is the only way in which their counterclaims can be considered on the merits.

Note 7 of the Advisory Committee Notes to the 1937 adoption of rule 13, regarding compulsory counterclaims, states: "If the action proceeds to judgment without the interposition of a counterclaim as required by subdivision (a) of this rule, the counterclaim is barred. See *American Mills Co. v. American Surety Co.*, 260 U.S. 360, 43 S.Ct. 149, 67 L.Ed. 306 (1922); *Marconi Wireless Telegraph Co. v. National Electric Signalling Co.*, 206 Fed. 295 (E.D.N.Y., 1913); Hopkins, *Federal Equity Rules* (8th ed. 1933), p. 213; Simkins, *Federal Practice* (1934), p. 663." Subsequent to the adoption of the rule, trial courts within the 8th circuit, and in other circuits as well, have interpreted it to mean that failure to assert a compulsory counterclaim is barred only if the action in which it could have been asserted proceeds to judgment. For example, in *Schott v. Colonial Baking Co.*, 111 F.Supp. 13, 18-19, (W.D.Ark 1953), the district court assumed that Rule 13(a) would not bar a compulsory counterclaim unless the action proceeded to judgment, and cited *Douglas v. Wisconsin Alumni Research Foundation*, 81 F.Supp. 167, 170, in which the court said "At the time of the

dismissal, it would have been still possible for Douglas to have asserted a counterclaim by way of amendment; but, in view of the dismissal order, such action became unnecessary."

Schott and Note 7 of the 1937 Advisory Committees Notes to rule 13 were subsequently cited in the case of *Bellmore Sales Corp. v. Winfield Drug Stores, Inc.* 187 F.Supp. 161, 162 (S.D.N.Y. 1960), where the court denied a motion for dismissal of the plaintiff's complaint on the grounds that it should have been raised as a compulsory counterclaim in a prior pending action saying: "The prior action is still pending. It is only after that action proceeds to judgment that any compulsory counterclaim arising out of the transaction or occurrence that is the subject matter of the prior suit will be barred."

In 1964 the United States District Court for the Southern District of Iowa cited *Bellmore* saying "A plaintiff's claim should not be dismissed on ground that it should have been raised as a compulsory counterclaim in a prior action, where such prior action is still pending and has not proceeded to judgment." *Local Union 499 of the International Brotherhood of Electrical Workers, AFL-CIO v. Iowa Power & Light Co.*, 224 F.Supp. 731, 738 (S.D. Iowa 1964).

In this case, the court of appeals remanded the case to the district court for further proceedings. (A-11) As a result, this action is still pending and has not proceeded to final judgment. Therefore, Schinzing should not be barred from bringing a claim for infringement.

In *International Video Corporation v. Ampex Corporation*, 484 F.2d. 634, 636 (9th Cir. 1973), the Court of Appeals for the ninth circuit affirmed the trial court's dismissal of the defendant's compulsory counterclaim for patent infringement when the plaintiff decided to abandon its

claim for a declaratory judgment of non-infringement. The present case is similar to *International Video* in that in this case Mid-State abandoned its claim for a declaratory judgment of non-infringement by failing to include it in its proposed findings of fact and conclusions of law. As a result, Magistrate Judge Nelson did not consider the claim and it was not addressed in the judgment. Once Mid-State abandoned its claim for a declaratory judgment of noninfringement Schinzing's counterclaim for infringement was no longer compulsory. On the other hand, if Mid-State's claim for non-infringement is reinstated, then Schinzing should be given an opportunity to assert a counterclaim for infringement.

This petition should be granted because the decision of the court of appeals in this case is inconsistent with generally accepted law that a compulsory counterclaim is not barred until the action in which it is compulsory proceeds to a final judgment, and if an opposing party's claim that makes the counterclaim compulsory is abandoned, the counterclaim is no longer compulsory.

In *Ayers v. United States*, 58 F.2d. 607, 608 (8th Cir. 1932) the court acknowledged its limited authority saying: "This court has no authority to retry an action at law and render such judgment as we may think should have been rendered. We can review only rulings made by the trial court on questions brought to its attention and passed upon by it."

In this case, the trial court did not decide whether Mid-State's products infringed Schinzing's patent. Instead, the trial court merely denied Mid-State's motion for amendment of the judgment to include a declaratory judgment of non-infringement because Mid-State "failed to present evidence of non-infringement, failed to seek a declaration of non-infringement at trial, failed to include a declaration of non-infringement in its proposed findings of

fact and conclusions of law and has not persuasively argued that it has new evidence, previously unavailable." (A-18)). Since the trial court did not address or decide the issue of non-infringement it should not have been reviewed or decided by the court of appeals.

2. Damages.

In a footnote the court of appeals acknowledged *Studiengesellschaft Kohle, M.B.H. v. Shell Oil Co.*, 112 F.3rd 1561, 1568 (Fed. Cir. 1997) ("this court detects no significant frustration of federal patent policy by enforcing the [license agreement] to the extent of allowing [the patent holder] to recover royalties until the date [the licensee] first challenged the validity of the claims" (emphasis added)). (A-10) In fact the United States Supreme Court has held that federal patent law does not pre-empt state contract law so as to preclude enforcement of a contract. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 99 S. Ct. 1096, 59 L. Ed. 2d. 296 (1979).

In this case there are two written agreements, the patent license agreement and a second agreement entitled "Disclosure Document." In the Disclosure Document Mid-State agreed that it would not build or have build (sp) or disclose information with anyone or any other manufacturers (sp) company on said products (wheelchair washers) without the written permission from Wally Schinzing or Susan Spaulding. (A-42 - A-44) This second agreement is not mentioned anywhere in the court of appeals' decision. It should have been addressed because it is an additional basis upon which Schinzing is entitled to recover from Mid-State under Wisconsin contract law. See *Lipscomb's Walker On Patents*, 3rd Edition, Volume 6, Section 20:41, on Pocket Part Page 19 (Copyright 1987); *Universal Gym Equipment, Inc. v. Erwa Exercise Equipment Limited*, 827 F.2d. 1542, 1550 (Fed. Cir. 1987). ("The question is whether the patent law precludes the application of state law to validate and award damages for a licensee's breach of a contractual

provision by which the licensee agreed that, after its license to manufacture the licensor's product had terminated, the licensee would not include the licensor's features and designs in the licensee's products. In our view the patent law does not preclude the application of state contract law to provide damages for breach of this agreement.") The court of appeals decision in this case is in conflict with *Kohle, Aronson* and *Universal Gym* and should be reversed.

3. Student report and student demonstration.

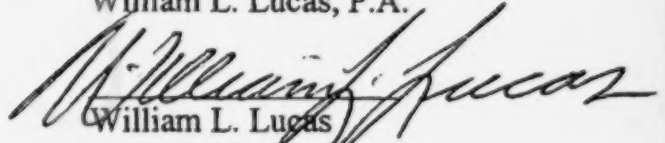
In its May 18, 2004, Second Amended Findings of Fact, Conclusions of Law and Order for Judgment the trial court concluded that Mid-State had not proved by clear and convincing evidence that the Northern Iowa student demonstration of the wheelchair washer constituted a public use and that as a matter of law the student's written proposal is not a printed publication under 35 U.S.C. §102(b). (A-49, A-50) The court of appeals did not reverse these rulings; nevertheless it remanded the case to the trial court for an element-by-element comparison of the '375 patent to the device shown in the student demonstration and the device described in the student report. Given the trial court's conclusion that the demonstration was not a public use and the report was not a printed publication, these two mandated element-by element comparisons would serve no purpose and are inconsistent with the statute and decisions of the court of appeals for the federal circuit relied upon by the trial court. *Lough v. Brunswick Corp.*, 86 F.3d 1113, 1119 (Fed. Cir. 1996); *Tone Bros. V. Sysco Corp.*, 28 F.3rd 1192, 1198 (Fed. Cir. 1994); and *In Re: Cronyn*, 890 F.2d 1158 (Fed. Cir. 1989).

CONCLUSION

This petition should be granted.

Respectfully submitted,

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UNITED STATES COURT OF APPEALS
FOR THE EIGHTH CIRCUIT

No. 04-2535

Walter W. Schinzing,

Appellee,

v.

Mid-States Stainless, Inc., a
Wisconsin Corporation,

Appellant.

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* Appeal from the United States

* District Court for the

* District of Minnesota

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Submitted: March 18, 2005

Filed: July 15, 2005

Before WOLLMAN, GIBSON, and COLLOTON, Circuit Judges.

WOLLMAN, Circuit Judge.

Mid-State Stainless, Inc. (Mid-State), appeals from the rejection of its patent invalidity counterclaim and from the denial of its motion to amend the judgment to include a declaratory judgment of non-infringement and a judgment that it had not breached a patent license agreement. We affirm in part, reverse in part, vacate in part, and remand.

I.

This is a patent case involving a machine designed to wash wheelchairs, the idea for which was originally conceived by Walter

Schinzing (Schinzing) in 1987. Schinzing filed a patent application with the United States Patent and Trademark Office (PTO) in August 1988 (the '091 application). The PTO rejected Schinzing's application as obvious in December 1988 and rejected amended applications as obvious in January 1989 and July 1989.

Contemporaneous with the filing of the '091 application, Schinzing made arrangements with Elm Springs Enterprises to manufacture his washer. Shortly thereafter, he permitted four students from Dr. Lou Honary's Methodology and Conceptualization class at the University of Northern Iowa to analyze the washer design over the course of a two-semester class project.¹ The students recommended improvements to the washer in a written report entitled "Wheel-Chair Modifications Proposal" (the student report). The students also demonstrated a version of the washer that incorporated their recommended improvements to an audience that included Schinzing, Dr. Honary, other students and professors, partners of Elm Springs, and a member of Congress (the student demonstration).

In October 1989, Schinzing filed a second patent application (the '119 application), which was a continuation-in-part of the '091 application. The '119 application incorporated the improvements recommended by the students and included several of the students' drawings. Schinzing maintained that he was the sole inventor of the modified washer. After the PTO rejected the '119 application,² Schinzing continued to work on further modifications to the washer. He and several other members of Elm Springs filed a third patent application in November 1990 (the '757 application). The subsequently amended '757 application presented an independent claim consisting of seven elements and a second claim dependent on

¹ The undergraduate course was part of an engineering technology program. Honary Dep. at 5. Dr. Honary indicated that the students in the program were trained to be "somewhere between a technician and an engineer with a management component to learn to manage projects." Id. at 6.

² Schinzing later abandoned the '119 application when he failed to respond to an August 1, 1990, letter from the PTO.

the first. The PTO issued patent number 5,133,375 (the '375 patent) for the amended '757 application in July 1992.

In April 1993, Schinzing, in partnership with a woman named Sue Spaulding (collectively, S/S Products), entered into a license agreement with Mid-State under which Mid-State would develop, manufacture, use, and market the washer. Mid-State agreed to pay S/S Products a royalty of \$ 400 for each washer that it installed. MidState manufactured and sold 99 washers under the agreement and paid royalties on those washers. After S/S Products terminated the agreement in February 1998, MidState sold an additional 232 washers but did not pay royalties on them.

Schinzing sued Mid-State in Minnesota state court, alleging that Mid-State had breached the license agreement by failing to pay royalties on the washers that it sold after the termination of the agreement. Mid-State removed the case to federal court, raised ten affirmative defenses, and counterclaimed for a declaratory judgment of patent invalidity and non-infringement. The parties consented to a trial before a magistrate judge. After a two-day bench trial, the district court concluded that MidState had breached the license agreement and that the '375 patent was not invalid. Mid-State filed a motion to amend the judgment to include a declaratory judgment of non-infringement and a judgment that Mid-State had not breached the license agreement. See Fed. R. Civ. P. 59(e). Mid-State appeals from the district court's denial of its motion and from the district court's conclusion that the '375 patent was not invalid.

II.

We briefly address the question of jurisdiction. This case involves substantive issues of patent law that are usually adjudicated in the Court of Appeals for the Federal Circuit. We are required to exercise jurisdiction, however, under the holding of Holmes Group v. Vornado Air Circulation, 535 U.S. 826, 829-31, 153 L. Ed. 2d 13, 122 S. Ct. 1889 (2002), which makes clear that the Federal Circuit's jurisdiction attaches when a plaintiff's well pleaded complaint asserts a claim arising under federal patent law, but not when the patent issue is raised for the first time in a defendant's counterclaim. Because Schinzing's complaint alleged no claims arising under

federal patent law and the patent issues arise solely from Mid-State's counterclaim, appellate jurisdiction properly lies with us. Cf. Telecom Tech. Servs. Inc. v. Rolm Co., 388 F.3d 820, 826 (11th Cir. 2004) ("Because the face of the complaint, here, addresses antitrust issues and patent infringement issues are only raised as counterclaims, the Federal Circuit determined that it did not have jurisdiction over the present case and transferred it to this court."); E.I. Du Pont de Nemours & Co. v. Okuley, 344 F.3d 578, 583 n.3 (6th Cir. 2003) (noting that counterclaims cannot serve as the basis for Federal Circuit jurisdiction).

In examining this case, we adopt the Federal Circuit's precedent on substantive issues of patent law.

III.

We turn first to Mid-State's counterclaims of patent invalidity, because if we conclude that the patent is invalid then we need not consider whether Mid-State was guilty of infringement. See Lough v. Brunswick Corp., 86 F.3d 1113, 1123 (Fed. Cir. 1996) ("Invalidity is a complete defense to infringement and . . . no further public interest is served by our resolving an infringement question after a determination that the patent is invalid."). Mid-State asserts four theories under which the district court should have invalidated the '375 patent: (1) inventorship (because Schinzling failed to name the students as co-inventors); (2) prior publication (based on the student report); (3) public use (based on the student demonstration); and (4) inequitable conduct.

A.

The first step in any invalidity analysis is claim construction. Akamai Techs., Inc. v. Cable & Wireless Internet Servs., Inc., 344 F.3d 1186, 1192 (Fed. Cir. 2003). Construction of the claims by the trial court is often conducted upon a preliminary evidentiary hearing, called a Markman hearing (which derives its name from Markman v. Westview Instruments, Inc., 517 U.S. 370, 134 L. Ed. 2d 577, 116 S. Ct. 1384 (1996)). EMI Group North America, Inc. v. Intel Corp., 157 F.3d 887, 891-92 (Fed. Cir. 1998). A court is required to construe the limitations of the claims and apply them to the allegedly invalidating

acts. See Dana Corp. v. American Axle & Mfg., Inc., 279 F.3d 1372, 1376 (Fed. Cir. 2002). See also Trovan, Ltd. v. Sokymat SA, Irori, 299 F.3d 1292, 1302 (Fed. Cir. 2002) (claim construction is the first step in invalidity analysis based on inventorship); Helifix Ltd. v. Blok-Lok, Ltd., 208 F.3d 1339, 1346 (Fed. Cir. 2000) (same with respect to prior publication); Bernhardt, L.L.C. v. Collezione Europa USA, Inc., 386 F.3d 1371, 1377 (Fed. Cir. 2004) (same with respect to public use).

The district court failed to construe the claims of the '375 patent. It is true that a trial court need not parse claims when there is no "issue in material dispute as to the meaning or scope of the claims." U.S. Surgical Corp. v. Ethicon, Inc., 103 F.3d 1554, 1570 (Fed. Cir. 1997); see also id. at 1562-63 ("there was no argument at trial as to the meaning of technical terms or words of art insofar as they concerned the determination of obviousness"). Because neither Schinzing nor Mid-State contests the meaning of any terms or words used in the description of the '375 patent, the threshold claim construction is not essential for purposes of defining the claim. What is indispensable, however, is an element-by-element comparison of the '375 patent to: (1) the aspects of the modified washer that the evidence showed were proposed by the students; (2) the device shown in the student demonstration; and (3) the device described in the student report. These are questions of fact, cf. id. at 1570, and they were not reached by the district court. Accordingly, we must remand the case so that the district court may conduct these comparisons for the purpose of addressing Mid-State's invalidity counterclaims related to inventorship, prior publication, and public use. Cf. Graco, Inc. v. Binks Mfg. Co., 60 F.3d 785, 791 (Fed. Cir. 1995) (conclusory factual findings on infringement provide an independent basis for remand).

We note that on remand the district court's comparison of the '375 patent to the device described in the student report and the device shown in the student demonstration should reflect the Federal Circuit's observation that 35 U.S.C. § 102(b) may bar patentability by anticipation if the earlier device includes every limitation of the later claimed invention, or by obviousness if the differences between the claimed invention and the earlier device would have been obvious to one of ordinary skill in the art. Netscape Communications

Corp. v. Konrad, 295 F.3d 1315, 1321 (Fed. Cir. 2002). Although obviousness is a legal conclusion, it requires underlying factual inquiries that include: (1) the scope and content of the prior art, (2) the differences between the prior art and the claims at issue, (3) the level of ordinary skill in the art at the time the invention was made, and (4) any objective evidence of nonobviousness. See Graham v. John Deere Co., 383 U.S. 1, 17-18, 15 L. Ed. 2d 545, 86 S. Ct. 684 (1966).

B.

Mid-State contends that the patent is invalid because Schinzing engaged in inequitable conduct before the PTO.³ Specifically, Mid-State asserts inequitable conduct based on Schinzing's failure to identify in the '757 application: (1) Schinzing's previously rejected patent applications (the '091 application and the '119 application); (2) a prior patent (the Haverberg patent); (3) the student co-inventors; (4) the student report; and (5) the student demonstration.

A district court's determination regarding inequitable conduct before the PTO is reviewed for abuse of discretion. PerSeptive Biosystems v. Pharmacia Biotech, Inc., 225 F.3d 1315, 1319 (Fed. Cir. 2000). To sustain a claim of inequitable conduct, the alleged infringer must show by clear and convincing evidence that (1) the nondisclosed information would have been material to the patent examiner, and (2) the nondisclosure was intentional. Under Sea Indus., Inc. v. Dacor Corp., 833 F.2d 1551, 1559 (Fed. Cir. 1987). These two elements must be balanced against each other, and if one is particularly strong, a lesser degree of the other may suffice to show inequitable conduct. Id. Nonetheless, "materiality does not presume intent, which is a separate and essential component of inequitable conduct." Allen Eng'g Corp. v. Bartell Indus., Inc., 299 F.3d 1336, 1352 (Fed. Cir. 2002) (citation omitted).

³ Although the practical effect is generally the same, inequitable conduct renders a patent unenforceable rather than invalid. Ulead Systems, Inc. v. Lex Computer & Mgmt. Corp., 351 F.3d 1139, 1150 n.8 (Fed. Cir. 2003).

The district court's findings on materiality and intent are reviewed for clear error, and thus will not be overturned in the absence of a definite and firm conviction on the part of the reviewing court that a mistake has been made. Hoffmann-La Roche, Inc. v. Promega Corp., 323 F.3d 1354, 1359 (Fed. Cir. 2003) (citation and quotation marks omitted). The district court's credibility determinations on intent to deceive the PTO can virtually never be clear error. Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp., 267 F.3d 1370, 1381 (Fed. Cir. 2001) (citation and quotation marks omitted). Gross negligence alone does not mandate a finding of intent to deceive. Kingsdown Med. Consultants v. Hollister, Inc., 863 F.2d 867 (Fed. Cir. 1988) (en banc in relevant part) (resolving conflicting precedent pertaining to gross negligence and intent).

The district court found that "there was no evidence at trial that Mr. Schinzing intentionally withheld anything from the Patent and Trademark Office" and that "Mr. Schinzing consistently testified that the student proposal was an educational opportunity provided to the students as part of their undergraduate course requirements and that the students' proposal was not a significant part of the invention as finally patented." D. Ct. Order of May 18, 2004, at 23. Although the district court did not specifically address Mid-State's allegations of inequitable conduct based on Schinzing's failure to disclose the prior patent applications, the Haverberg patent, and the student report, the factual findings that these nondisclosures were not intentional is implicit in the district court's finding that Schinzing did not intentionally withhold "anything" from the PTO. We conclude that the district court's factual findings as to intentionality are not clearly erroneous. Because none of Schinzing's nondisclosures was intentional, the district court did not err in finding that Schinzing did not engage in inequitable conduct before the PTO.

IV.

Although we are unable to determine whether the '375 patent is invalid, we address Mid-State's other issues on appeal in the interest of judicial economy. We review the denial of a Rule 59(e) motion to amend the judgment for abuse of discretion. Mathenia v. Delo, 99 F.3d 1476, 1480 (8th Cir. 1996).

A.

A claim for a declaration of non-infringement makes a counterclaim for patent infringement compulsory. Polymer Indus. Prods. Co. v. Bridgestone/Firestone, Inc., 347 F.3d 935, 938 (Fed. Cir. 2003) (noting that this is a uniform national rule established by the Federal Circuit). A party that does not assert a compulsory counterclaim waives its right to bring the counterclaim and is forever barred from asserting that claim in future litigation. Id. The burden is always on the patent holder to show infringement. Under Sea Indus., 833 F.2d at 1557.

Mid-State counterclaimed for a declaratory judgment of non-infringement in its answer to Schinzing's complaint. Accordingly, Schinzing was obligated to counterclaim for infringement and had the burden to show infringement. Schinzing argues that because Mid-State failed to reassert its request for a declaratory judgment in its proposed findings of fact and conclusions of law, Mid-State has waived or abandoned its counterclaim and Schinzing is therefore relieved of its obligation to assert a compulsory counterclaim. We disagree. Schinzing's obligation to assert a compulsory counterclaim arose when Mid-State filed its counterclaim for declaratory judgment. Irrespective of Mid-State's subsequent action or inaction, Schinzing, having failed to counterclaim or present any evidence of infringement at trial, has not proved infringement and is now barred from bringing a future infringement action. Accordingly, Mid-State is entitled to a declaratory judgment of non-infringement, and thus the district court abused its discretion in denying Mid-State's motion to amend the judgment. Moreover, because it is entitled to a declaratory judgment of noninfringement, Mid-State, as a matter of law, could not have infringed the '375 patent.

B.

Schinzing's allegation that Mid-State breached the license agreement is premised on article VI(D) of the agreement, which provides, in relevant part, that:

Upon termination of this Agreement for any reason, [Mid-State] may after the effective date of such

termination sell all Licensed Products in stock and complete construction of all Licensed Products in the process of manufacture at any time of termination and sell the same, provided that [Mid-State] shall pay to [S/S Products] royalties on such Licensed Products as specified in this Agreement.

License Agreement at 5.⁴ The district court concluded that "to the extent that MidState breached [the] agreement after the date of termination, the appropriate measure of damages is the calculation of a reasonable royalty on all machines sold which embodied the licensed patent and/or technology." D. Ct. Order of May 18, 2004, at 25.

The district court's conclusion fails to distinguish between breach and infringement. The license agreement obligated Mid-State to pay Schinzing royalties on any washers that were either in stock or in the process of manufacture when the agreement was terminated. Schinzing may assert a claim for breach of contract against Mid-State for its failure to pay post-termination royalties on those washers. In contrast, any washers that Mid-State manufactured completely post-termination fell outside the scope of the license agreement, and Schinzing has no contractual remedy against Mid-State for its manufacture and sale of those washers. To conclude otherwise would mean that the agreement was irrevocable, an interpretation precluded both by Article VI of the agreement ("unless terminated earlier, the term of this Agreement shall be indefinite") and by Schinzing's termination of the agreement.

⁴ The license agreement defines "licensed products" as "any wheel chair cleaning assembly, subassemblies, components, replacement parts [or] other products which embody the Licensed Patent and Technology." License Agreement at 1. The "licensed patent" is defined as "U.S. Patent No. 5,133,375 and corresponding foreign patents or applications and including divisions, reissues, continuations, renewals, and extensions thereof." *Id.* "Technology" is defined as "any knowledge, information, know-how and devices, whether patentable or not, in the possession of [S/S Products] and relating to the Washer." *Id.*

When Schinzing terminated the agreement, Mid-State "no longer [had] any right to the use of the licensed patent or technology." License Agreement at 5. Accordingly, the appropriate recourse for Schinzing would have been an infringement action. That possibility, however, is now barred by our holding in part IV(A), supra.

We are left, then, to consider Schinzing's breach of contract claim with respect to those washers sold by Mid-State that were either in stock or in the process of manufacture when the agreement was terminated. Although we have held that MidState did not infringe the '375 patent in its manufacture and sale of the washers, it may still have breached the license agreement by failing to pay royalties in accordance with that agreement. On the other hand, if the district court concludes on remand that the '375 patent is invalid, then it will have to address Mid-State's affirmative defense that the license agreement is invalid for lack of consideration.⁵ Accordingly, we remand the breach issue. We also note that the record does not reflect how many of the 232 washers that Mid-State sold after the agreement had been terminated were either in stock or in the process of manufacture at the time of termination. If the district court concludes that Mid-State breached the license agreement by selling, after the agreement had been terminated, washers that were either in stock or in the process of manufacture at the time of termination, the district court will have to make a factual finding regarding the number of washers sold posttermination that fell within that category.

V.

We affirm the district court's ruling that the '375 patent is not unenforceable due to inequitable conduct. We vacate the district

⁵ But cf. Studiengesellschaft Kohle, M.B.H. v. Shell Oil Co., 112 F.3d 1561, 1568 (Fed. Cir. 1997) ("this court detects no significant frustration of federal patent policy by enforcing the [license agreement] to the extent of allowing [the patent holder] to recover royalties *until the date [the licensee] first challenged the validity of the claims*" (emphasis added)).

court's ruling that the patent was not invalid with respect to inventorship, prior publication, and public use. We reverse the district court's denial of Mid-State's motion to amend the judgment to reflect a declaratory judgment of noninfringement and remand with direction to grant the motion. We vacate the district court's ruling that Mid-State breached the license agreement, we vacate the damage award, and we remand for further proceedings consistent with this opinion.

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA

Walter Schinzing,

Civil No. OO-CV-2686 (MJD/SRN)

Plaintiff,

v.

ORDER

Mid-State Stainless, Inc.,

Defendant.

William L. Lucas, Esq., on behalf of Plaintiff.

Richard A. Arrett, Esq. and Edwin E. Voigt, Esq., on behalf of Defendant.

SUSAN RICHARD NELSON, United States Magistrate Judge

The above entitled matter came before the undersigned United States Magistrate Judge on Defendant's Motion to Alter or Amend Judgment Pursuant to Fed. R. Civ. P. 59(e) [Doc. No. 71] and Plaintiff's Motion for Attorney's Fees and Expenses and Prejudgment Interest [Doc. No. 73]. On April 28, 2003, the parties consented to the exercise of jurisdiction by a United States Magistrate Judge and the Honorable Michael J. Davis, United States District Judge for the District of Minnesota, ordered the case referred to the undersigned.

I. PROCEDURAL HISTORY

Plaintiff filed his Complaint on October 30, 2000, in Hennepin County District Court alleging breach of a license agreement for United States Patent No. 5,133,375 ('375 Patent). Defendant removed the case to this Court in December 2000, denied the allegations of breach, and raised the following affirmative defenses: (1) joint ownership of the licensed patent; (2) the patent license was no longer in force; (3) invalidity of both the patent license and disclosure document for lack of consideration; (4) patent misuse; (5) no breach of the patent license; (6) invalidity of the

license agreement for lack of consideration because the '375 patent is invalid; (7) no breach because the '375 Patent does not cover any Mid-State product; (8) invalidity and unenforceability of the license agreement because the '375 Patent is invalid because it does not name the correct inventors; (9) invalidity of the '375 Patent due to Schinzing's and/or his counsel's inequitable conduct before the United States Patent Office; and (10) Mid-State was fraudulently induced to enter the license agreement. (Am. Findings of Fact at 1-2.) Mid-State counter-claimed for declaratory judgment of patent invalidity and non-infringement of the '375 Patent and for fraudulent inducement and common law deceit. (Am. Answer & Counterclaims at ¶¶ 21-57.)

In July 2002, Judge Davis addressed the parties' cross motions for summary judgment. Judge Davis granted Plaintiff's motion for summary judgment as to Defendant's counterclaim that the '375 is invalid as obvious. (Mem. & Order of 7/16/02.) Judge Davis denied the rest of Plaintiff's summary judgment motion and denied Defendant's summary judgment motion. id.

A bench trial was held in May 2003 before this Court. The sole issue on which the parties presented live testimony at trial was the validity of the '375 Patent. The Court issued its Amended Findings of Fact, Conclusions of Law and Order for Judgment on December 4, 2003, granting judgment to Plaintiff in the amount of \$92,8000 plus interest. (Am. Findings of Fact at 26.)

II. BACKGROUND

This case arises out of a dispute involving a license agreement in which Plaintiff licensed the use of its '375 Patent for a wheelchair washer to Defendant. Defendant obtained the license in order to further develop, manufacture and market the washer. In exchange, Defendant agreed to pay a royalty of \$400 per machine. The parties entered into this agreement in April 1993. (Def. Ex. 40.) As to termination of the agreement, the license agreement provided for an indefinite term. It also provided:

- D. Upon termination of this Agreement for any reason, nothing herein shall be construed to release any party

from its obligation which matured prior to the effective date of termination. MSI, its affiliates or its sublicensees may after the effective date of such termination sell all Licensed Products in stock and complete construction of all Licensed Products in the process of manufacture at any time of termination and sell the same, provided that MSI shall pay to S/S royalties on such Licensed Products as specified in this Agreement.

- E. Upon termination for any cause, other than the expiration of the letters patent granted under the Licensed Patent, MSI shall no longer have any right to the use of the Licensed Product or Technology.

(Complaint, Ex. A, Art. VI.)

Within six days of entering into the license agreement, at Plaintiffs request, Plaintiff had Defendant's General Manager, Marshall Ryan, sign a disclosure document. (Am. Findings of Fact at ¶ 82.) This document states:

I will in no way build or have build [sic] or disclose any information with anyone or any other manufacturers [sic] company on said products, without the written permission from Wally Schinzing or Susan Spaulding.

(Complaint, Ex. B.) Plaintiff also signed this document, though it involved no separate consideration. (Am. Findings of Fact at ¶ 85.) Plaintiff believed that under this disclosure agreement, Defendant was allowed to build the licensed machine, but could only build other machines with Plaintiff's written permission. *id.* at ¶ 87.

III. PARTIES' POSITIONS

Pursuant to Fed. R. Civ. P. 59(e), Defendant moves to alter or amend judgment. While Defendant requests that the Court amend judgment on several grounds, the primary substantive reasons and amendments sought include the following:

1. To indicate that Defendant also counterclaimed for declaratory judgment of non-infringement of the '375 Patent;
2. That the Court award Defendant declaratory judgment of non-infringement;
3. That the Court provide analysis as to how Plaintiff met its burden of proving breach of a clause that survived termination, specifically, identifying how Defendant sold "licensed product" post-termination. Accordingly, Defendant requests that the altered or amended judgment reflect that Defendant did not breach the license agreement. Defendant also seeks to alter or amend the judgment in conformity with its position that Plaintiff has failed to state a cause of action post-termination upon which relief can be granted. Defendant contends that Plaintiff has not initiated a cause of action against Defendant for patent infringement following termination of the license agreement.
4. Defendant requests that the Court change the judgment to indicate that Defendant did not breach the agreement, as Defendant contends it did not sell licensed product post termination.

(Def's Mem. to Alter or Amend Judgment at 4-5.)

Defendant points to paragraph 25 of its counterclaim, and its prayer for relief, in which it pled that its wheelchair washing machines did not infringe on any valid claim of the '375 Patent and requested a declaration to that effect. Id. at 1. Defendant also argues that the trial evidence showed that Defendant's products sold since termination have motor-powered, oscillating back-and-forth spray arms, rather than circular rotating arms powered by water pressure. Id. at 3. The Court found that since termination, Defendant sold some models without motorized rollers (Am. Findings of Fact at ¶ 93), and that the '375 Patent claimed to include rollers and the means for rotating said roller means. Id. at 64. Thus, Defendant argues that

this further supports its position that any models it sold since termination without motorized rollers do not infringe claims 1-2 of the '375 Patent. (Def.'s Mem. To Alter or Amend Judgment at 3.)

Defendant argues that the judgment does not sufficiently analyze the issue of breach following termination. Id. at 4. Also, Defendant contends that the damages' standard is in error because it contained no analysis of Defendant selling "licensed product" post-termination. Id. Furthermore, Defendant contends that just because it mistakenly paid Plaintiff royalties prior to the termination of the license agreement, that does not alter Plaintiff's burden of proving breach of the agreement post-termination. Id.

Plaintiff argues that Defendant does not meet the standard to amend or alter the judgment under Fed. R. Civ. P. 59(e). (Pl.'s Mem. in Opp. to Def.'s Mot. to Alter or Amend at 1.) In particular, Plaintiff contends that Defendant based its non-infringement claim upon its claim of invalidity. As the Court found that the patent was not invalid, Plaintiff argues that Defendant's non-infringement claim fails accordingly. Id. at 2. Moreover, Plaintiff notes that because Defendant failed to request judgment of non-infringement in its proposed findings of fact and at trial, it may not now raise the issue. Id.

Even if the Court considers Defendant's non-infringement argument, Plaintiff contends that it is directed at only claim 1 of the patent. Because the patent has two claims, Plaintiff argues that infringement of one claim constitutes infringement of the entire patent. Id. at 3. Furthermore, Plaintiff states that the undisputed evidence at trial proved that Defendant's products do infringe claim 1 of the patent. Specifically, the spray arms of Defendant's products perform the same work as the spray arms of Plaintiff's patent and they also clean wheelchairs in substantially the same way and achieve the same result. Id. at 4. Finally, Plaintiff notes that contrary to Defendant's assertions, some of Defendant's products do have motorized rollers. Id. at 5. Thus, Plaintiff contends that even if the Court considers Defendant's arguments in support of non-infringement, they do not lend adequate support to give Defendant a judgment of non-infringement.

IV. DISCUSSION

A. Standard of Review

A motion to amend or alter judgment in a non-jury case may be granted when "evidence has been admitted or excluded improperly, evidence has been newly discovered, or improper actions of counsel have affected the outcome of the case." Fed. R. Civ. P. 59. However, "a motion to amend should [not] be employed to introduce evidence that was available at trial but was not proffered, to relitigate old issues, to advance new theories, or to secure a rehearing on the merits." Fontenot v. Mesa Petroleum Co., 791 F.2d 1207,1219 (5th Cir. 1986). Parties should not use a motion to alter and amend judgment to raise arguments which could, and should, have been made before judgment issued. Bogosian v. Woloohojian Realty Corp., 323 F.3d 55 (pt Cir. 2003); see also, NL Industries, Inc. v. Commercial Union Ins. Cos., 938 F.Supp. 248 (D. N.J. 1996) (party may not use motion to reconsider to reargue motion or present evidence which should have been raised before.) Thus, a motion made pursuant to Rules 52 and 59 is not intended to routinely give litigants a second bite at the apple, but to afford an opportunity for relief in extraordinary circumstances. Dale and Selby Superette & Deli v. U.S. Dept of Agriculture, 838 F.Supp. 1346, 1347-1348 (D. Minn. 1993).

B. Defendant's Claim of Non-Infringement

As noted above, in a Rule 59 motion, a party may not introduce evidence that could have been discovered earlier, but was not proffered at trial. See, supra. While Defendant included a claim for a declaration of non-infringement in its counterclaim (Def.'s Answer and Counterclaims, ¶¶ 23, 25), it offered no evidence or argument to this effect at trial, nor did it include any such proposed finding of fact (See, Def.'s Revised Proposed Findings of Fact at ¶ 3.) In fact, the Court's Amended Findings of Fact, in which it enumerated Defendant's counterclaims, mirrors the very language proposed by Defendant -language which makes no mention of a

counterclaim regarding a declaration of non-infringement.⁶ The entirety of Defendant's case at trial consisted of its arguments with respect to invalidity.

Because Defendant failed to present evidence of non-infringement at trial, failed to seek a declaration of non-infringement at trial, failed to include a declaration of non-infringement in its proposed findings of fact and conclusions of law and has not persuasively argued that it has new evidence, previously unavailable, the Court denies Defendant's motion to amend or alter judgment to include a finding of non-infringement.

C. Breach

Defendant argues that the Court did not sufficiently analyze the issue of breach and, in short, even if the patent was valid, Defendant's products are not contained in the patent, and therefore, Defendant could not breach the agreement. (See, Def.'s Mem. to Alter or Amend Judgment at 4-5.) Again, the thrust of Defendant's case at trial focused on invalidity of the patent. No live testimony was presented on the issue of breach by the defense.

The relevant clauses in the licensing agreement provide:

Article VI - Term and Termination

- D. Upon Termination of this Agreement for any reason, nothing herein shall be construed to release any party from any obligation which matured prior to the effective date of termination. MSI, its affiliates or its sublicensees may after the effective date of such termination sell all Licensed Products in stock and

⁶ Compare, "Mid-State also counterclaimed for a declaratory judgment of patent invalidity of the '375 Patent and for fraudulent inducement and common law deceit" (Am. Findings of Fact at 2.), with "Mid-State also counterclaimed for a declaratory judgment of patent invalidity of the '375 patent (First Counterclaim) and for Fraudulent Inducement and Common Law Deceit (Second Counterclaim.)" (Def.'s Revised Proposed Findings of Fact at ¶ 3.)

complete construction of all Licensed Products in the process of manufacture at the time of termination and sell the same, provided that MSI shall pay to S/S [plaintiff] royalties on such Licensed Products as specified in this Agreement.

- E. Upon termination for any cause, other than the expiration of the letters patent granted under the Licensed Patent, MSI shall no longer have any right to the use of the Licensed Patent or Technology.

(Complaint, Ex. A., Art. VI) The agreement defines "Licensed Products" as "any wheel chair cleaning assembly, subassemblies, components, replacement parts of other products which embody the Licensed Patent and Technology. Id. at Art. 1. "Technology," per the agreement, is "any knowledge, information, know-how and devices, whether patentable or not, in the possession of S/S [plaintiff] and relating to the Washer." Id.

Interpretation of a contract is a question of law. Edwards v. Petrone, 465 N.W.2d 847, 848 (Wis. Ct. App. 1990). Evidence of parties' intent, such as the course of performance, is admissible only if the contract is ambiguous. Heder v. City of Two Rivers, 149 F.Supp.2d 677, 687 (E.D. Wis. 2001), vacated on other grounds, 295 F.3d 777 (7th Cir. 2002), citing, Mielke v. Nordeng, 337 N.W.2d 462 (Wis. Ct. App. 1983). A contract is ambiguous if its terms are reasonably susceptible to more than one construction. Gorton v. Hostak. Henzl & Bichler. S.C., 577 N.W.2d 617 (Wis. 1998). Under Wisconsin law, parties' course of dealings is an acceptable method of proof of contractual obligations. Northwestern National Ins. Co. v. Marsh & McLennan. Inc., 817 F.Supp. 1424, 1431 (E.D. Wis. 1993); see also, Central States. Southeast. Southwest Areas Pension Fund v. Kroger Co., 226 F.3d 903 (7th Cir. 2000), cert. denied, 532 US. 990 (2001) (noting that, in general, the practical interpretation the parties to a contract have given that contract is strong evidence of their intended meaning for an ambiguous term); Sethness-Greenleaf. Inc. v. Green River Corp., 65 F.3d 64 (7th Cir. 1995) (course of dealing or course of performance can be used to flesh out ambiguous or incomplete agreement).

At issue here is what is meant by the language in the termination provision stating that "MSI shall no longer have any right to the use of the Licensed Patent or Technology." ((Complaint, Ex. A, Art. VI. (E)) The license agreement defines the "Licensed Patent" as US. Patent No. 5,133,375, and had the termination provision merely referred to the "Licensed Patent," there would be no ambiguity. Instead, the termination provision encompasses "the Licensed Patent or Technology." Id. at Art. I (B) (emphasis added). "Technology" is defined as "any knowledge, information, know-how and devices, whether patentable or not, in the possession of S/S and relating to the Washer." Id. at Art. I(A). The very terms "knowledge," "information," "know-how," and "devices" are vague, as well as the phrase "relating to the washer." Because the language is so broad, it could be construed to refer to only the '375 patent washer, or it could include similar products "relating to" the '375 patented device. Had Plaintiff merely sought to protect products which embody only the licensed patent, he could have expressly stated that. Thus, given this sufficient evidence of ambiguity, the Court finds that extrinsic evidence of the parties' intent is relevant to the interpretation of the license agreement.

By using the words "or Technology," one must presume that the parties understood the license agreement would be broadly construed. Such an interpretation is further buttressed by the Disclosure Document (Complaint, Ex. B.), which more explicitly provides that Defendant agrees to refrain from building or disclosing information about the washer without Plaintiff's written permission. In this Order, the Court is not, however, defining "Technology." Rather, the Court is noting that the license agreement language is ambiguous and however it might be construed, the Court must examine the parties' course of performance to shed light upon the parties' understanding and intent.

The parties' course of performance under this agreement is instructive. The license agreement provides for the payment of royalties on the wheelchair washing machines until the date of termination of the license agreement. As the Court noted in its Amended Findings of Fact, Defendant contemplated that the first 99 wheelchair washing machines sold, which did not include rotary spray arms, were products covered by the license agreement, and, in fact, Defendant paid royalties on these products. (Am. Findings of

Fact at 25.) Defendant argues that it affirmatively proved at trial that none of its products sold post-termination utilized rotary spray arms which are caused to rotate by liquid. (Def.'s Mem. to Alter or Amend Judgment at 6.) Nevertheless, Defendant previously paid royalties on the first 99 machines, none of which utilized rotary spray arms, indicating that it understood such machines to be encompassed by the license agreement.

As to its conduct post-termination, Defendant argues that it did not sell "Licensed Product," therefore, it is not liable for such damages. Again, the license agreement provides for "Licensed Product or Technology." ((Complaint, Ex. A, Art. V(E.)) "Technology" is defined as "any knowledge, information, know-how and devices, whether patentable or not, in the possession of S/S and relating to the Washer." *id.* at Art. I(A). Applying the broad definition, "Technology," could be interpreted to include Defendant's products. Given Defendant's exclusive focus at trial on the issue of invalidity, it cannot now raise arguments that could have been raised at trial regarding breach. For these reasons, Defendant's motion to amend or alter judgment as to breach is denied.

F. Damages

The Court held that, to the extent that Defendant breached the agreement after the date of termination, "the appropriate measure of damages is the calculation of a reasonable royalty on all machines sold which embodied the licensed patent and/or technology." (Am. Findings of Fact at 25.) The Court determined that Defendant was liable for royalties for the 232 machines for which it had not paid any royalties, in the amount of \$92,800. *Id.* Defendant argues first that the Court's standard was in error because the license agreement defines "licensed products" to include products "which embody the Licensed Patent and Technology." (Def.'s Mem. to Alter or Amend Judgment at 4.) Defendant argues that there is no analysis showing that Defendant sold "licensed product," post-termination. *Id.*

As discussed, *supra*, the Court finds the agreement's definition of "technology" ambiguous, and therefore turns to the parties' course of performance as to what the agreement encompassed. While Defendant argues that none of its products fall

within Claim 1 of the '375 Patent, because they do not include rotating spray arms rotated by water pressure, Defendant paid royalties on the first 99 products. Id. at 5. None of these products utilized rotary spray arms. Defendant then refused payment on 232 other machines. Defendant characterizes the royalty payments on the first 99 machines as a mistake, resulting in a windfall for Plaintiff. Id. Although Defendant argues that it is black letter law that, following termination, parties are relegated to their status prior to the grant of the license (Def.'s Mem. to Alter or Amend Judgment) (citations omitted), in Universal Gym Equipment, Inc. v. Erwa Exercise Equipment, Ltd., 827 F.2d 1542, 1550 (Fed. Cir. 1987), the court addressed a similar situation. The Universal Gym court posed the question of whether patent law precludes the application of state law to validate and award damages for a licensee's breach of a contractual provision by which the licensee agreed that, after its license to manufacture the licensor's product had terminated, the licensee would not include the licensor's features and designs in the licensee's products. Id. The court concluded, "patent law does not preclude the application of state contract law to provide damages for breach of this agreement." Id. While Defendant argues that the agreement in this case, unlike that in Universal Gym, contained no prohibition against selling licensed product, post-termination, the agreement provides that upon termination, Defendant may sell all licensed products in stock and complete construction of all licensed products in the process of manufacture and sell them, provided that Defendant pay to Plaintiff all the royalties on such products as specified in the license agreement. (Complaint, Ex. A., Art. VI.) The agreement contemplates that Plaintiff receive royalties for its licensed products following termination.

The Court concludes that the 232 machines fall within "licensed product," as they are essentially the same as the 99 machines for which Defendant paid royalties and contemplated to be "licensed product." The Court finds the course of performance persuasive evidence of the parties' intent and understanding and concludes that the damages total, which includes the 232 wheelchair washers, is a reasonable calculation of damages. Thus, the Court denies Defendant's motion to alter or amend the Findings of Fact as it pertains to damages.

G. Miscellaneous Proposed Changes

A Summarization of Judge Davis' Summary Judgment Decision

Defendant seeks clarification of the Amended Findings of Fact and Conclusions of law as it pertains to Judge Davis' Summary Judgment Order. (Def.'s Mem. to Alter or Amend Judgment at 2.) At summary judgment, the Court granted Plaintiff's motion for partial summary judgment as to Defendant's counterclaim that the '375 patent was invalid as obvious, in view of the teachings of Clark, Zademach, Haverberg or Clark, and denied summary judgment of the other claims and counterclaims. (Order and Mem. of July 16, 2002.) Discussing Judge Davis' decision, in the Amended Findings of Fact and Conclusions of Law, this Court stated:

Judge Davis ruled, in his Memorandum Opinion and Order dated July 16, 2002, that claim 1 of the '375 Patent was not obvious to one skilled in the art in view of the prior art identified by Mid-States' expert Richard Bartz in his expert report. Mid-State failed to prove, by clear and convincing evidence, that the student proposal and/or student presentation in combination with the other art of record renders claim 1 of the '375 Patent obvious.

(Am. Findings of Fact at 23-24.) Defendant argues that at summary judgment, Judge Davis did not have before him and did not rule on the obviousness of the '375 Patent in view of the public use or the printed publication which occurred at the University of Northern Iowa combined with the '375 prior art of record. (Def.'s Mem. to Alter or Amend Judgment at 2.)

While the Court is willing to make the requested clarification regarding its description of the summary judgment ruling, it is unwilling to alter the conclusion that Defendant failed to prove, by clear and convincing evidence, that the student proposal and/or student presentation in combination with the other art of record rendered claim 1 of the '375 Patent obvious.

B. Typographical Errors

Defendant also seeks to amend the judgment via Fed. R. Civ. P. 59 to correct two typographical errors. First, Defendant points out that on page 24 of the Amended Findings of Fact that the Court quoted the license agreement as reading "license to patent and technology," when the actual language in the license is "licensed patent and technology." Second, Defendant notes that in one of its proposed findings of fact, it inadvertently referred to "licensed product" instead of "licensed patent." When the Court included Defendant's proposed paragraph into its Amended Findings of Fact and Conclusions of Law, it included Defendant's typographical error, found in paragraph 76 and page 24, paragraph E.

As these requested corrections are merely to correct and clarify the Court's judgment, the Court grants Defendant's motion as to these clarifications.

H. Plaintiff's Motion for Attorney's Fees and Expenses and Prejudgment Interest

A. Attorney's Fees and Expenses

Plaintiff contends that he is entitled to fees and expenses, citing Wisconsin legal authority and the plain language of the license agreement. Plaintiff points to the following language in the licensing agreement to support its position:

Article VIII - Indemnifications and Insurance

- A. MSI agrees to indemnify S/S and hold S/S harmless against all liabilities, demands, damages, expenses, or losses arising from (i) the manufacture, use, or sale of Licensed Products by MSI, an affiliate or sublicensees, (ii) from a third party's use of a Licensed Product purchased or leased from MSI, an affiliate or sublicensee of MSI, or (iii) from a third party's manufacture of a Licensed Product at the request of MSI.

(Complaint, Ex. A, Art. VIII)

Wisconsin follows the "American Rule," under which parties assume responsibility for their own attorney fees. Hunzinger Constr. Co. v. Granite Resources Corp., 538 N.W.2d 804,809 (Wis. Ct. App. 1995). "As a general proposition, attorney fees are not allowable unless a statute or an agreement of the parties provides otherwise." Meas v. Young, 417 N.W.2d 55, 57 (Wis. Ct. App. 1987) (citations omitted). Wisconsin also recognizes an exception to the general rule when:

[T]he wrongful acts of the defendant have involved the plaintiff in litigation with others, or placed him in such relation with others as to make it necessary to incur expense to protect his interest, such costs and expense should be treated as the legal consequences of the original wrongful act.

Id., citing Weinhagen v. Hayes, 190 N.W. 1002, 1003 (Wis. 1922).

Plaintiff argues that both the indemnification language in the license agreement and the Weinhagen decision require Defendant to bear Plaintiff's attorney's fees and costs. Defendant argues that Plaintiff's motion should not be considered because the request for attorney's fees was not included in either Plaintiff's pretrial or post-trial findings of fact and conclusions of law, nor was it submitted at trial. (Def.'s Mem. Opp. to Pl.'s Mot. Atty's Fees at 1.) The Court is not persuaded by Defendant's argument, as a motion for attorney's fees and costs is typically made by separate motion and is not included in a party's proposed findings of fact and conclusions of law.⁷ See Osterneck v. Ernst & Whinney, 489 U.S. 169, 175 (1989) (noting difference between motions for attorney's fees as compared to motions for prejudgment interest; the former are not regarded as part of the merits judgment).

Plaintiff is not trying to recover litigation expenses it incurred

⁷ Defendant certainly is correct, however, to note that Rule 59 motions to alter or amend judgment require a party to have submitted some evidence, either at trial or in its proposed findings of fact and conclusions of law, on the issue at hand to the court. See, supra.

in a dispute with a third party. The contractual language does not mention attorney's fees between parties. The language at issue provides that Defendant agrees to "indemnify and hold Plaintiff harmless against damages resulting from the manufacture, use or sale of products by Defendant. ((Complaint, Ex. A., Art. VIII (A)). Although not explicit, the language refers to indemnification relating to third-party claims, and is found, appropriately enough, in the section of the license agreement captioned "Indemnification and Insurance." (Complaint, Ex. A, Art. VIII.) Had the parties intended to include a provision requiring the breaching party to bear the attorney's fees of the other party, a logical section to include such a provision would have been either there or in the "Construction! Arbitration" section. In that section, the license agreement provides that Wisconsin law governs any disputes and it describes a procedure for arbitrating disputes. (Complaint, Ex. A, Art. XII). As to arbitration, the agreement states that expenses "will be shared equally between the parties." *Id.* In Hunzinger, 538 N.W.2d at 809, the court, "as is the general rule, we will not construe an obligation to pay attorneys' fees contrary to the American Rule unless the contract provision clearly and unambiguously so provides." (citations omitted). Similarly here, the license agreement is silent as to an award of attorney's fees between the parties. Absent a clear expression of intent to the contrary, the court is unwilling to permit an award of attorney's fees.

The Weinhagen rule appears to be similarly applied to situations involving third-parties: "Under Weinhagen attorney's fees are recoverable from a wrongdoer only if they were incurred by a party who was forced to litigate with a third party." Marquardt v. Milwaukee Cty., 639 N.W.2d 762, 768-69 (Wis. Ct. App. 2001). Again, because Plaintiff's motion does not involve a third-party, Weinhagen is not applicable. The Court denies Plaintiff's motion for attorney's fees and costs.

2. Prejudgment Interest

Plaintiff also moves for an award of prejudgment interest. Plaintiff argues that the Court's judgment against Defendant, which includes interest, refers also to prejudgment interest. (Pl.'s Mem. Supp. Mot. Atty's Fees at 3.) Further, Plaintiff contends that an

award of prejudgment interest is consistent with the license agreement language in which Defendant agreed to indemnify Plaintiff and hold him harmless against all liabilities, demands, damages, etc., resulting from the manufacture, sale or use of the licensed products. rd. In providing a method for calculating prejudgment interest, Plaintiff refers to Wisconsin's statutes for calculating interest on jury verdicts and post-judgment interest. Id. at 4, citing WI. Stat. §§ 814.04(4), 815.05.

Defendant argues that Plaintiff's motion, which should be characterized as a motion to alter or amend judgment under Fed. R. Civ. P. 59(e), is untimely, and therefore should be denied. Defendant also disputes the applicability of the Wisconsin statutes upon which Plaintiff bases his calculation of prejudgment interest. (Def.'s Mem. Opp. to Pl.'s Mot. Atty's Fees at 1, 4.)

A post-judgment motion for discretionary prejudgment interest constitutes a motion to alter or amend the judgment pursuant to Fed. R. Civ. P. 59(e). Osterneck v. Ernst & Whinney, 489 US. 169, 175 (1989). The Supreme Court notes that postjudgment interest is really an element of plaintiff's complete compensation. Id. "Thus, unlike attorney's fees, which at common law were regarded as an element of costs and therefore not part of the merits judgment, prejudgment interest traditionally has been considered part of the compensation due plaintiff." Id. (citations omitted.) Furthermore, unlike a motion for attorney's fees and costs, a motion for discretionary prejudgment interest does not raise wholly collateral issues to the judgment in the main cause of action. Id.

Here, Plaintiff's motion for prejudgment interest was filed on December 22, 2003. This Court's Amended Findings of Fact and Conclusions of Law were filed on December 2, 2003. Under Fed. R. Civ. P. 59(e), a motion to amend or alter judgment must be filed no later than 10 days after entry of judgment. Having filed to meet the filing date, the Court denies Plaintiff's motion for prejudgment interest.

THEREFORE, IT IS HEREBY ORDERED THAT:

1. Defendant's Motion to Alter or Amend Judgment

Pursuant to Fed. R. Civ. P. 59(e) [Doc. No. 71] is DENIED, in part, and GRANTED, in part, consistent with this Order; and

2. Plaintiff's Motion for Attorney's Fees and Expenses and Prejudgment Interest [Doc. No. 73] is DENIED as to attorney's fees and expenses and is DENIED as to prejudgment interest.

Dated: May 18, 2004

s/Susan Richard Nelson

SUSAN RICHARD NELSON
United States Magistrate

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA

Walter Schinzing,

Civil No. 00-2686 SRN

Plaintiff,

v.

Mid-State Stainless, Inc.,

Defendant.

SECOND AMENDED
FINDINGS OF FACT,
CONCLUSIONS OF LAW
AND ORDER FOR
JUDGMENT

William L. Lucas, Esq., on behalf of Plaintiff.

Richard A. Arrett, Esq. and Edwin E. Voigt, Esq., on behalf of
Defendant.

SUSAN RICHARD NELSON, United States Magistrate Judge

On April 28, 2003, the parties in the above-entitled matter consented to the exercise of jurisdiction by a United States Magistrate Judge and the Honorable Michael J. Davis, United States District Judge for the District of Minnesota, ordered the case referred to the undersigned. This matter was tried to the Court on May 19 and 20, 2003.

I. PROCEDURAL HISTORY

On October 30, 2000, Plaintiff Schinzing ("Schinzing") filed a Complaint in Hennepin County District Court alleging breach of a license agreement for United States Patent No. 5, 133,375 (the '375 Patent). On December 11, 2000, Defendant Mid-State Stainless removed the case, denied the allegations of breach, and raised the following ten affirmative defenses: (1) joint ownership of the licensed patent; (2) the patent license was no longer in force; (3) invalidity of both the patent license and disclosure document for lack of consideration; (4) patent misuse; (5) no breach of the patent license; (6) invalidity of the license agreement for lack of consideration because the '375 patent is invalid; (7) no breach

because the '375 Patent does not cover any Mid-State product; (8) invalidity and unenforceability of the license agreement because the '375 Patent is invalid because it does not name the correct inventors; (9) invalidity of the '375 Patent due to Schinzing's and/or his counsel's inequitable conduct before the United States Patent Office; and (10) Mid-State was fraudulently induced to enter the license agreement. Mid-State also counterclaimed for a declaratory judgment of patent invalidity of the '375 Patent and for fraudulent inducement and common law deceit.

On July 16, 2002, Judge Davis issued a Memorandum Opinion and Order addressing the parties' cross motions for summary judgment. Judge Davis granted Schinzing's motion for summary judgment as to Mid-State's Counterclaim that the '375 Patent is invalid as obvious. Judge Davis denied the rest of Schinzing's summary judgment motion and denied Mid-State's summary judgment motion.

Exhibits And Testimony

At trial, Schinzing introduced exhibits 1-8 and Mid-State introduced exhibits 1-31 and 35-62, by stipulation. Also, at trial, the deposition testimony of Walter Schinzing, Casey, Cooling, Todd Petry, Professor Lou Honary, Michael Sewick, Thomas Tate and Marvin Jacobson was admitted by stipulation. Walter Schinzing was the only witness in his case-in-chief. Marshall Ryan of Mid-State Stainless, Todd Petry, and Richard Bartz testified in Mid-State's case-in-chief. All of the deposition testimony and exhibits relied on by Judge Davis in his Memorandum Opinion and Order were also admitted into evidence at trial, including the Bartz Affidavit, which is the expert report of Defendant's patent expert.

II FINDINGS OF FACT

Initial Conception And Development

1. Schinzing conceived the idea of a machine for washing wheelchairs in 1987, while employed as Director of Plant Operations for a nursing home named the White Bear Care Center. (Transcript of Proceedings (Tr.) p. 14, line 20-p. 16, line 1.)

2. Schinzing received permission from White Bear Care Center to take home a wheel chair which he used while constructing a prototype wheelchair washing machine out of a thick cardboard box measuring approximately 40 inches in height, width, and breadth, and half-inch wide piping. (Tr. p. 16, lines 4-17.)

3. Schinzing constructed the prototype over a period of six to seven months. He hooked the pipes up to his garden hose and placed the device on two by fours to elevate it four inches off the ground. (Tr. p. 17, lines 2-14.)

4. Schinzing had a company named Stenberg Welding build the second prototype in the Spring of 1988. It was a stainless steel prototype which had fixed spray nozzles, no rotating spray arms, no motorized roller assembly, and no water recirculation back to the spray arms. (Tr. p. 18, line 6-p. 20, line 23 & p. 96 line 14-p. 97 line 8.)

5. Later in 1988, Schinzing met with a group in Greene, Iowa that had advertised for new products and showed them the second prototype. (Tr. p. 21, lines 8-15.)

6. Schinzing and the group formed a company named Elm Springs Enterprises (Elm Springs). The five shareholders of Elm Springs were Schinzing, Richard Vickers, Patrick Vickers, Gale Brinkman, and Michael Meissen. (Tr. p. 21, lines 19-21, p. 22, lines 3-4, p. 22, line 22-p.23, line 2, & p. 24, lines 13-22.)

7. In the fall of 1988, with Schinzing's permission, Elms Springs took his prototype to the PLUS Methodology and Conceptualization class, an undergraduate class, at the University of Northern Iowa, taught by Professor Honary. (Tr. p. 26, line 1-p. 29, line 21, p. 180, line 7; Honary Depo. at 3.)

8. Patrick Vickers explained to Schinzing that the prototype would provide a learning experience for the class. In addition, if the class went well and the university received recognition, Vickers believed Elm Springs could apply for and likely receive a grant. (Tr. p. 26, lines 10-24.)

9. The students in the class, Casey Cooling, Michael Sewick, Richard Nottger and Todd Petry, were asked to improve the wheelchair washer as part of a class project during the 1988-1989 school year. (Memorandum Opinion and Order page 2).

10. When the stainless steel prototype was dropped off at the University of Northern Iowa, it had fixed nozzles, rather than rotary spray arms, and did not have a motorized roller assembly or recirculation of water back to rotary spray arms. (Tr. p. 183, line 23- p. 184, line 8.)

11. The students in the class were not told what improvements the prototype required; Elm Springs told them only that they wanted recommendations. The students initially tested the prototype, found it did not work satisfactorily, and made a list of things that needed improvement. (Tr. p. 193, lines 10-19, p. 183, lines 2-9, p. 182, lines 2-10.)

12. Throughout the class, three Elm Springs representatives would periodically visit, and the students would give progress reports which included the problems with the machine, and the areas on which they were going to work. (Tr. p. 183, lines 10-14.)

13. Schinzing attended the initial meeting and three other meetings, and the only student he met with individually was Petry. (Tr. p. 30, lines 8-24.)

14. One of the students proposed using a similar design that was used in a dishwasher for the spray arms. Petry proposed using two rollers, one that drove and one that simply spun to rotate the wheels. Petry also stated he had the idea to install a brush to clean the wheels, and was never told to do so by Schinzing. (Tr. p. 193, line 22- p. 194, line 10.)

15. Schinzing initially told Petry that the wheelchair wheels needed to be rotated when the chair was cleaned, but did not tell Petry how to do it. Schinzing testified that the idea to use a motorized roller assembly with two rollers spaced apart, driven by a quarter horsepower motor with a chain was his idea, but he did not

tell that to Petry so as not to interfere with the learning process. (Tr. p. 117, line 6-p. 118, line 8.)

16. Schinzing informed Petry that the roller system Petry had designed would not work, because the rollers were made of rubber, and when covered with water and soap, would slide rather than rotate the wheels. Schinzing also told Petry that extending the motor out of the side of the machine would not work because the machine would then not fit through doors and the motor would be knocked off the side quickly. Schinzing stated that the brushes were already in place when Elm Springs first met with the class. (Tr. p. 31, lines 21-22, p. 32, line 14- p. 33, line 5.)

17. Sewick claims that element (b) of claim 1 of the '375 Patent, "a sump in said floor, said chamber floor being slanted to drain liquid to said sump" was his idea, and that Petry, or the class collaboratively, thought of the means by which the wheelchair was elevated above the floor. Sewick also believed Petry had the idea for element (g)'s "means for rotating said roller, means for rotating said large diameter wheelchair wheels while liquid is applied to said wheels." Sewick's claimed contribution to the invention was to heat and recirculate the water. He further testified that the addition of a sump was his idea, and that the concept of using elongated tubular liquid spray arms was Richard Nottger's idea. (Sewick Depo. at 4-5, 14, & 23-25.)

18. The bottom of page four of the students' final report discusses the distribution of the wash and rinse water which, on the prototype, was performed by fixed jets positioned along the top, bottom, and each side of the cabinet. The report states, "By dispensing water through rotating arms of similar design to that currently used in a modern dishwasher, coverage could be dramatically increased."

It then proceeds to state that by using four rotating arm assemblies by mounting two arm assemblies over the wheelchair and one on each side, total coverage could be attained. (Dep. Ex. 10.)

19. Cooling recalled that Petry designed the motorized roller assembly. (Cooling Depo. at 3 & 14-15.)

20. Schinzing did not invent rotary spray arms for the machine, and does not know who did. (Tr. p. 116, lines 5-20.)

21. The students submitted a final report titled "Wheel-Chair Modifications Proposal" (students' final report), which included drawings, or figures, they had made of the machine they modified. (Tr. p. 185, lines 19-25, p. 189, line 25-p. 191, line 24; Dep. Ex. 8.)

22. The students conducted a final presentation of the modified prototype, which incorporated their work as part of the class requirements. In this presentation, the students ran the modified prototype with a wheelchair inside. (Tr. p. 124, line 25- p. 125, line 14.)

23. Schinzing and other members of Elm Springs attended the final presentation, as well as Congressman David Nagle, various professors, and students. (Tr. p. 125, line 2, p. 196, lines 13-24; p. 198, lines 2-4; Petry Depo. at 8; Sewick Depo. at 7-8 & 21-22; Cooling Depo. at 9; Honary Depo. at 28-29.)

24. Elm Springs received a copy of the final report and Schinzing received a copy from Elm Springs. (Tr. p. 107, line 8.)

25. Schinzing recalled that Elm Springs had confidentiality agreements with Professor Honary and the students, but he did not prepare them himself and could not produce copies. (Tr. p. 73, line 8-p. 77, line 9; Schinzing Depo. at 17.)

26. Honary, Sewick, Cooling, and Petry, did not recall ever entering confidentiality agreements. (Cooling Depo. at 9-10; Sewick Depo. at 10; Petry Depo. at 9; Honary Depo. at 15-16.)

27. After the class was completed, Elm Springs took the machine back. (Tr. p. 39, line 13, p. 88, lines 1-7.)

28. After Elm Springs took the machine back, they hired Dallas Foster to develop it from the prototype stage into a working and then a production model. Foster made significant changes to the

machine. He first developed a clear plastic third prototype, which made it possible to see inside it while it worked, and then a stainless steel fourth prototype (Tr. p. 39, line 13-p. 40, line 10, p. 88, lines 10-17.)

29. While Foster was developing the machine, he would periodically show Schinzing what he had done, and they would discuss further changes. (Tr. p. 40, lines 4-8.)

Patent History

30. On August 29, 1988, before the prototype was brought to the University of Northern Iowa, Schinzing filed a patent application with the United States Patent and Trademark Office (USPTO), Serial No. 02/237,091 for an automatic wheelchair washer, listing himself as sole inventor. On December 20, 1988, and again on January 29, 1989, the USPTO rejected Schinzing's claims as obvious under 35 U.S.C. §103. The application received final rejection in July, 1989. (Memorandum Opinion and Order at 1-2.)

31. On October 10, 1989, attorney Thomas Tate filed a Continuation-In-Part Application (CIP) of the 07/237,091 for Schinzing. (Memorandum Opinion and Order at 2; Dep.. Ex. 17.)

32. Schinzing affirmed that he was the original, first, and sole inventor. (Schinzing Depo. at 111-12; Dep.. Ex. 17.)

33. Tate communicated with Schinzing and the attorneys, the Vickers brothers, from Elms Springs. It was Tate's understanding that, as part of getting a marketable product, they were having the university students do some testing of various features. (Tate. Depo. at 6-7.)

34. In a January 20, 1989 telephone conversation between Tate and Richard Vickers of Elm Springs, Vickers told Tate that some of the changes in design by the students were the rotating arms instead of stationary jets, and that Vickers would send final designs when they were ready, and then determined if additional patent applications would be needed. (Tate Depo. at 9-10.)

35. Schinzing gave Tate a copy of the students' final report. (Tr. p. 107, lines 5-12; Tate Depo. at 18.)

36. Tate did not recall having a discussion with Schinzing about inventorship related to the new subject matter in the CIP application. (Tate Depo. at 11.)

37. It was Tate's understanding that the students were doing this project based on instructions that Schinzing gave to the students. No one from the university ever called Tate stating that they thought the students should be listed as co-inventors. Tate did not have any subsequent conversations with Schinzing about inventorship related to the students at the university. (Tate Depo. at 21.)

38. Claims 2 through 6 of the CIP application related to new subject matter added on and not included in the original claim. (Tate Depo. at 13.)

39. The rotary spray arms of claim 2, and the means for washing being a roller assembly with a brush of claim 4 in the CIP application were new subject matter. (Tate Depo. at 14.)

40. Tate produced a handwritten draft CIP application which included the same claims that were filed in the second CIP application. The first three paragraphs of the draft CIP application state: (1) "Include description of roller assembly," referring to the motorized assembly that was part of the new subject matter; (2) "As an alternative, rotary arm," referring to the rotary arms that were also part of the new subject matter; and (3) "add description of timing circuit," referring to drawings 5 through 8 of the student proposal which were also part of the new subject matter. (Tate Depo. at 15-16.)

41. Tate used Figures 10 through 13, which are on pages 34-37 of the students' final report as Figures 5 through 8 of the CIP application. (Tate Depo. at 10 & 19-21.)

42. On January 17, 1990, the CIP application was rejected as obvious under 35 U.S.C. § 103. (Memorandum Opinion and Order

at 2; Def. Ex. 17.)

43. On April 17, 1990, Schinzing revoked Tate's power of attorney and substituted attorney Marvin Jacobson to continue the CIP. (Def. Ex. 17; Schinzing Depo. at 120; Memorandum Opinion and Order at 2.)

44. Jacobson never communicated with Tate nor received any information from him concerning where the subject matter for the CIP application had originated. Jacobson communicated with Schinzing, and received the CIP application from him. (Jacobson Depo. at 5-7.)

45. On June 14, 1990, Jacobson amended the CIP application, cancelling claims 1-6, and adding claims 7-11. (Def. Ex. 17.)

46. In his request for reexamination and reconsideration, Jacobson stated that the new claims were directed toward an aspect of the invention, the subject matter of which had not been dealt with in any prior art references. It specified that this novel aspect was the manner in which the wheels were rotated and cleaned. Claim 7 stated that the machine comprised means for rotating and cleaning the wheels of a stationary chair. Dependant claims 8-11 described a pair of spaced-apart rotatable rollers to rotate the wheel which rested on them, and a brush located between the rollers "in cleaning contact with the wheelchair wheel." (Def. Ex. 17.)

47. In his deposition, Schinzing stated that the idea of rotating the wheels with brushes was his idea. (Schinzing Depo. at 122.)

48. On August 1, 1990, claims 8-11 were rejected as obvious in light of prior art included in the Haverberg '650 Patent. The patent examiner, Frankie L. Stinson, noted that the '650 Patent, although not intended for wheelchair washing, nevertheless disclosed rotatable spaced-apart rollers and a brush, adding that "to have a roller located between the spaced rollers is obvious matter of mechanical design." (Def. Ex. 17.)

49. The CIP application ultimately went abandoned for failure to respond to the August 1, 1990 Office letter. (Def. Ex. 17.)

50. In October 1990, Jacobson and a draftsman went to Greene, Iowa and viewed a mockup and drawings of Elm Springs' wheelchair washer. (Jacobson Depo. at 16-17; Def. Ex. 20.)

51. Jacobson and the draftsman subsequently used the drawings for another patent application. (Jacobson Depo. at 17-18.)

52. Jacobson decided to file a new application, rather than a CIP. He believed the machine was then a new entity, because it had three additional inventors who had significantly changed the manner and function in which the machine operated. (Jacobson Depo. at 19-20.)

53. Jacobson discussed inventorship with the Elm Springs people, and advised them to make certain that all the people they believed were inventors had actually contributed some part of the patentable aspect of the machine. (Jacobson Depo. at 24-25.)

54. The three additional inventors, Dallas Foster, Gale Brinkman, and Michael Meissen, along with Schinzing, mentioned something to Jacobson about working with the University of Northern Iowa. Whatever they told Jacobson did not seem exceptional to him, and he relied on their representation that they were the inventors. Consequently, he did not investigate the students' role. (Jacobson Depo. at 21-24.)

55. Jacobson never saw the students' final report, though he may have seen drawings, or copies of drawings from it. (Jacobson Depo. at 26-27.)

56. On October 23, 1990, Jacobson wrote to Schinzing, informing him that he would begin work on the patent application, naming Schinzing, Foster, Meissen, and Brinkman as inventors. (Def. Ex. 21.)

57. Schinzing recalled that Foster, Meissen, and Brinkman made contributions to the shallow drain floor, requiring

more water for washing and to keep the pump from cavitating, and made contributions to the loading device. (Schinzing Depo. at 131.)

58. Schinzing stated that Jacobson made the decision to add the other three individuals as inventors. (Schinzing Depo. at 35-36 & 131-132.)

59. On November 14, 1990, Jacobson, on behalf of Schinzing, filed the third patent application for the wheelchair washer, Application Number 07/612,757. The application listed Schinzing, Foster, Brinkman, and Meissen as inventors. (Def. Ex. 22.)

60. The third application did not cite the Haverberg Patent, and Jacobson could not recall why it was not included. (Def. Ex. 22; Jacobson Depo. at 38.)

61. On July 9, 1991, the third application was rejected by examiner Philip R. Coe. (Def. Ex. 22.)

62. On October 29, 1991, amended claims were rejected and objected to by examiner Coe. (Def. Ex. 22.)

63. On February 5, 1992, further amended claims were allowed and Schinzing was granted the '375 Patent. (Def. Ex. 22.)

64. The '375 Patent claims the following:

1. A washer for cleaning a conventional wheelchair said wheelchair having a large diameter support and propulsion wheel on each side of a seat and a pair of small diameter guide wheels forward of the seat and below the level of the seat, said washer comprising:

a) and [an] enclosed washing chamber suitable for holding a conventional wheelchair, said chamber defined by end walls, side walls, a floor and a ceiling and having a doorway in on wall through which a wheelchair can be placed in and removed from the

chamber;

- b) a sump in said floor, said chamber floor being slanted to drain liquid to said sump;
- c) means for supporting a conventional wheelchair elevated above said floor in said washing chamber for exposing the underside of said wheelchair and the entire area of the wheelchair wheels to cleaning and rinsing liquid;
- d) elongated tubular liquid spray arms rotatably mounted on walls and the ceiling of said chamber, said spray arms having a series of nozzles spaced apart lengthwise on said spray arms, said nozzles angled to apply liquid onto all parts of a conventional wheelchair supported by said wheelchair supporting means including the underside of the wheelchair, the entire seating surface area of the wheelchair seat and the wheelchair wheels;
- e) means for feeding cleaning and rinsing liquid to said spray arms for rotating said spray arms and for providing said liquid to said nozzles; f) said means for supporting a conventional wheelchair including a rack having frame means for holding the front small diameter guide wheels of a conventional wheelchair to prevent the wheelchair from moving while being washed and roller means, the large diameter support and propulsion wheels of a conventional wheelchair resting on said roller means; and
- g) means for rotating said roller means for rotating said large diameter wheelchair wheels while liquid is applied to said wheels.

2. The wheelchair washer as described in claim 1 further including means for moving said frame meaning into and out of said washing chamber.

(Def. Ex. 22.)

65. Figures I and 2 of the '375 Patent show the loading mechanism to which Michael Meissen and Gale Brinkman and

Dallas Foster contributed. (Schinzing Depo at. 144.) (Def. Ex. 22.)

66. Figure 3 of the '375 Patent shows the rotating spray nozzles mounted on the ceiling. (Schinzing Depo. at 144.)

67. Figure 4 of the '375 Patent shows a view of the wheelchair through the sidewall where the front wheels are a bit higher than where the back wheels rest so that there is a slant to the wheelchair causing water to run off the wheelchair. (Schinzing Depo. at 144-45.)

68. Figure 7 of the '375 Patent shows the chain with the two rollers shown and the brush in between the two rollers. (Schinzing Depo. at 145.)

69. Jacobson was not aware of any disclosure, any prior sale, any statutory bar or anything that would put the invention disclosed in the CIP application in the public domain or into public knowledge, and, therefore, Jacobson did not consider the CIP application to be prior art. (Jacobson Dep. at 44, line 21 - 45, line 24.)

License Agreement Under The '375 Patent

70. On July 9, 1991, Elm Springs met with members of the Grantsburg, Wisconsin City Council in Greene, Iowa, to discuss finding investors for the wheelchair washing machine. (Schinzing Depo. at 36-37 & 158-59.)

71. On August 17, 1991, Schinzing and Elm Springs terminated their agreement. After the termination, Schinzing and Elm Springs were each free to market and sell the wheelchair washing device in any way they wanted. (Schinzing Depo. at 160; Def. Ex. 26.)

72. In the fall of 1991, Schinzing began working with a Grantsburg company called DR Tech. Schinzing originally brought DR Tech an old prototype with stationery jets on the side, and a videotape and drawings of the new prototype which had rotating arms and rollers to move the wheels (Tr. p. 46, line 17-p. 47, line 6;

Schinzing Depo. at 37-38.)

73. In April 1993, DR Tech became Mid-State Stainless, Inc. (Mid-State). (Schinzing Depo. at 40.)

74. On April 29, 1993, Schinzing, in partnership with a woman named Sue Spalding, S/S New Products, and Mid-State entered into a license agreement under the '375 Patent (the license agreement). (Def. Ex. 40.)

75. Under the license agreement, Mid-State received the non-transferable exclusive right to develop, manufacture, use, and market any wheelchair cleaning assembly, subassembly, components, replacement parts, or other products embodying the "licensed patent and technology." Under the license agreement, Schinzing received a royalty of \$400.00 per machine. (Schinzing Depo. at 40-41; Def. Ex. 40.)

76. The license agreement states, with respect to termination:

A. Unless terminated earlier, the term of this Agreement shall be indefinite.

D. Upon termination of this agreement for any reason, nothing herein shall be construed to release any party from its obligation which matured prior to the effective date of termination. MSI, its affiliates or its sublicensees may after the effective date of such termination sell all licensed products in stock and complete construction of all licensed products in the process of manufacture at any time of termination and sell the same, provided that MSI shall pay to S/S royalties on such licensed products as specified in this agreement.

E. Upon termination for any cause, other than the expiration of the letters patent granted under the

licensed patent, MSI shall no longer have any right to the use of the licensed patent or technology.

77. Schinzing received royalties under the license agreement for the first 99 units Mid-State sold. (Tr. p. 56, lines 3-5.)

78. At the time of trial, Mid-State had sold 331 units. (Tr. p. 172, lines 13-16; PI Ex. 8.)

79. During negotiations with Mid-State, Schinzing informed Marshall Ryan, one of the Mid-State principals, that the '375 Patent was good. Ryan would not have entered the license agreement otherwise. (Tr. p. 165, lines 12-17.)

80. Schinzing never told Ryan anything about the University of Northern Iowa students. (Tr. p. 165, line 18-p. 166, line 25.)

81. Schinzing never told Ryan about the first two patent applications, which had been rejected and abandoned. (Tr. p. 167, lines 1-13.)

82. On May 5, 1993, six days after the license agreement was entered into, Schinzing had Ryan sign a document titled "Disclosure Document Between S/S New Products and Mid-States Stainless." Ryan was in Grantsburg, Wisconsin at the time he signed the document. (Tr. p. 47, line 21-p. 48, line 2, p. 60, line 24-p. 61, line 7; Schinzing Depo. at 41-42; Def. Ex. 41.)

83. In typed print, this document states:

I WILL IN NO WAY BUILD OR HAVE BUILD OR DISCLOSE ANY INFORMATION WITH ANYONE OR ANY OTHER MANUFACTURERS COMPANY ON SAID PRODUCTS WITHOUT THE WRITTEN PERMISSION FROM WALLY SCHINZING OR SUSAN SPAULDING.

(A) AUTOMATIC WHEELCHAIR WASHER AND OR ANY MODIFICATIONS THAT MAY BE

APPLIED TO PRESENT WHEELCHAIR WASHER WHICH IS A PATENTED PRODUCT.

(B) DESIGNS FOR A SMALLER WHEELCHAIR WASHER THAT MAY BE BUILT.

(C) DESIGNS OF CART TO CARRY WHEELCHAIRS TO AND FROM WASH AREAS.

(D) WASHER THAT CAN BE ATTACHED TO AND PUT ON THE BACK END OF A TRAILER OR TRUCK FOR THE SOLE PURPOSE OF GOING FROM PLACE TO PLACE TO CLEAN WHEELCHAIRS .

(Def. Ex. 41.)

84. Schinzing asked Ryan to sign this document because Schinzing became concerned when he went on sales trips to market his product, and he would repeatedly see a competing product called the Wheel-Ease. Schinzing believed that Ryan was connected to the Wheel-Ease because he encountered it everywhere he went to market his own machines. Further, in the fall of 1992, Ryan had asked Schinzing if Ryan could invent his own wheelchair washing machine, and Schinzing told him he could not. (Tr. p. 50, line 3-p. 51, line 8, p. 68, lines 20-22, p. 71, line 13-p. 72, line 18; Schinzing Depo. at 42.)

85. Schinzing believed that under the disclosure document, Mid-State was allowed to build the licensed machine, but could only build other machines with his written permission. (Schinzing Depo. at 179.)

86. Schinzing wanted Mid-State to build the machine he had patented, rather than any other machines. (Schinzing Depo. at 187.)

87. Mid-State did not receive any specific consideration for Ryan signing the disclosure document. (Tr. p. 67, line 12-p.69, line 19; Schinzing Depo. at 189-91.)

88. On February 3, 1998, Schinzing terminated the license agreement. (pl. Ex. 6.)

89. As a result of the termination, Schinzing believed Mid-State no longer had any contract rights. If Mid-State continued to build wheelchair washing machines, Schinzing believed it would be possible to sue Mid-State either for breach of contract for competing with him, or for patent infringement. (Tr. p. 78, line 18-p.79, line 17.)

Schinzing's Claims In The Complaint

90. Paragraphs 1 & 2 of the Complaint refer to the license agreement and disclosure document. Paragraph 3 states, "Defendant has breached and continues to breach said agreements by failing to account and pay plaintiff royalties for all of its sales of wheelchairs [sic] washing machines and by building wheelchair washing machines and having wheelchair washing machines built without plaintiffs' written permission."

Schinzing's And Mid-State's Current Models

91. The wheelchair washers sold by Mid-State in 1993-95, which were reported to Schinzing on Mid-State's royalty statements, had spray arms which oscillated back and forth, but did not rotate in complete circles. (Tr. p. 100, line 23-p.101, line 22.)

92. The wheelchair washers Mid-State has sold since Schinzing terminated the license agreement also have spray arms which oscillate back and forth, rather than rotating in complete circles, and are oscillated by a motor rather than water pressure. (Tr. p. 169, line 23-p. 170, line 16.)

93. Since termination, Mid-State has also sold some models without motorized rollers. These sales were also included in the 331 total sales figure. (Tr. p. 170, line 17-p. 171, line 3.)

94. In December 2000, Petry assigned any rights he had in the '375 Patent to Mid-State. Petry also granted Mid-State a non-exclusive license under the '375 Patent, retroactive to the issue date of the '375 Patent. In exchange, Petry received \$1,500. (Tr. p. 198, line 13- p. 199, line 9.)

95. Schinzing's current model of the machine does not have rubber, or a motor extending out of the side. It uses knurled bars to make the wheels turn, and has the motor in a compartment in the back. (Tr. p. 37, lines 2-12.)

96. The proposed system for heating the water was ultimately abandoned, because the water available at most nursing homes is sufficiently hot by itself (Tr. p. 36, lines 4-20.)

Expert Testimony

97. Richard O. Bartz, a patent attorney and Mid-State's patent expert, testified and submitted an expert report. (Tr. p. 209, line 15; Def. Ex. 60.)

98. Bartz concluded the following: (1) the '375 patent was invalid, because the students invented features claimed in claim 1 of the '375 patent, but were not named as inventors; (2) it was inequitable conduct not to disclose to the patent office the information directed to the students' inventive activity related to the wheelchair washer; (3) the students' final report was a printed publication which renders claim 1 anticipated under 35 U.S.C. §102(b), and when combined with the other prior art of record, renders the remaining claims of the '375 patent obvious under 35 U.S.C. §103; (4) it was inequitable conduct not to disclose the students' presentation to the patent office, because it was material information; (5) the students' presentation was a public showing which renders claim 1 of the '375 patent invalid under 35 U.S.C. §102(b), and, when combined with the other prior art of record, renders the remaining claims of the '375 patent obvious under 35 U.S.C. §103; (6) it was inequitable conduct not to disclose the students' presentation to the patent office, because it was material information; (7) both the students' presentation and final report were closer prior art than anything the Examiner had of record. (Tr. p. 209-232; Def. Ex. 60.)

99. There was no cross-examination of Bartz, and Schinzing did not call an expert witness on the claim of invalidity of the '375 Patent. (Tr. p. 232, lines 5-14.)

III CONCLUSIONS OF LAW

Patent Invalidity

A. Proper Inventors

Mid-State asserts that the '375 Patent is invalid because the patent application did not disclose all the inventors and by failing to disclose the proper inventors, Schinzing committed fraud on the Patent and Trademark Office. Specifically, Mid-States argues that the '375 Patent was invalid under 35 U.S.C. § 102(f) because the University of Northern Iowa students were not named as joint inventors. Section 102(f) provides that "[a] person shall be entitled to a patent unless he did not himself invent the subject matter sought to be patented." Where a non-joinder of an actual inventor is proved by clear and convincing evidence, then a patent is rendered invalid. Pannu v. Iolab Corp., 155 F.3d 1344, 1349 (Fed.Cir. 1998).

Mid-State has not proved, by clear and convincing evidence, that any of the University of Northern Iowa students contributed, in a significant manner, to the conception or reduction to practice of the invention as it was finally patented. Although the evidence does demonstrate that the students made proposals to an early prototype of the wheelchair washing machine as part of a learning experience during an undergraduate course at the University of Northern Iowa, there is not clear and convincing evidence that the students' early contribution to the claimed invention is significant measured against the dimension of the full invention. Nor is there clear and convincing evidence that the students did more than merely explain to Schinzing well-known concepts and/or the current state of the art.

B. Public Use

Mid-State claims that the '375 Patent is invalid pursuant to 35 U.S.C. §102(b) because the apparatus was in use more than one year before the date of the patent application. Specifically, Mid-State argues that the exhibition of the modified prototype, at the University of Northern Iowa, at the conclusion of the undergraduate course in the Spring of 1989 in the presence of fellow classmates,

their professor, representatives of Elm Spring and a congressman constituted public use. The Federal Circuit has defined "public use" as "any use of [the claimed] invention by a person other than the inventor who is under no limitation, restriction or obligation of secrecy to the inventor." Lough v. Brunswick Corp., 86 F.3d 113, 1119 (Fed.Cir. 1996). Whether an invention has been in public use requires consideration of the totality of the circumstances in light of the policies underlying this doctrine.

Id. The policies include:

- 1) Discouraging the removal, from the public domain, of inventions that the public reasonably has come to believe are freely available;
- 2) Favoring the prompt and widespread disclosure of invention;
- 3) Allowing the inventor a reasonable amount of time following sales activities to determine the potential economic value of a patent; and
- 4) Prohibiting the inventor from commercially exploiting the invention for a period greater than the statutorily prescribed time.

Id. (Citing Tone Bros. v. Sysco Corp., 28 F.3d 1192, 1198 (Fed.Cir. 1994), cert denied 514 US. 1015 (1995)). Factors to be included in determining whether the wheelchair washer was in public use include:

- 1) The number of prototypes and duration of testing;
- 2) Whether records or progress reports were made concerning the testing;
- 3) The existence of confidentiality agreements between the patentee and the party performing

the testing;

- 4) Whether the patentee received compensation;
and
- 5) The extent of control the inventor maintained
over the testing. Id.

Although the evidence shows that in the spring of 1989, the students gave a demonstration of the wheelchair washer prototype they had endeavored to improve, which included some proposed modifications to the early prototype, Mid-State has not proved by clear and convincing evidence that the University of Northern Iowa student demonstration of the wheelchair washer constituted a public use.

C. Printed Publication

Mid-State argues that the '375 patent is invalid because the University of Northern Iowa student report was a printed publication within the meaning of 35 U.S.C. § 102(b). To determine whether a paper is a "printed publication" as contemplated within § 102(b), the Court must look to the publication's dissemination and public accessibility. The Federal Circuit, in In re: Cronyn, 890 F.2d 1158 (Fed.Cir. 1989), held that a student thesis filed in the university library was not a printed publication because the thesis had not been meaningfully catalogued or indexed. As a result, the publication was not reasonably accessible to the public. Id. at 1161. Mid-State has not demonstrated, by clear and convincing evidence, that the entire content of the student proposal originated from the students nor that the publication was reasonably accessible to the public. To the contrary, there is conflicting evidence concerning the origination of the ideas in the student proposal and the extent to which those ideas were incorporated into the invention as finally patented. The Court finds, as a matter of law, that the student proposal is not a printed publication under 35 U.S.C. § 102(b).

D. Fraud. Inequitable Conduct. Breach Of A Duty Of Candor

Mid-State asserts that the failure of Schinzing and his counsel to disclose to the Patent and Trademark Office that the students were co-inventors and their failure to turn over the student report constituted fraud on the PTO, inequitable conduct and a breach of their duty of candor as provided in 37 C.F.R. § 1.56. "Inequitable conduct includes affirmative misrepresentations of a material fact, failure to disclose material information, or submission of false material information, coupled with an intent to deceive." PerSeptive Biosystems, 225 F.3d at 318 (citing Molins PLC v. Textron Inc., 48 F.3d 1172, 1178-79 (Fed.Cir. 1995)). Mid-State has not presented undisputed, clear and convincing evidence of inequitable conduct. indeed, there was no evidence at trial that Mr. Schinzing intentionally withheld anything from the Patent and Trademark Office. Mr. Schinzing consistently testified that the student proposal was an educational opportunity provided to the students as part of their undergraduate course requirements and that the students' proposal was not a significant part of the invention as finally patented.

E. Obviousness

Mid-State argues that claim I of the '375 patent is obvious under 35 U.S.C. §103 in view of the student proposal and/or the student presentation in combination with the other art of record and the other art identified by Richard Bartz in his expert report. Judge Davis ruled, in his Memorandum Opinion and Order dated July 16, 2002, that claim 1 of the '375 Patent was not obvious to one skilled in the art in view of the prior art identified by Mid-States' expert Richard Bartz in his expert report. Judge Davis did not have before him and did not rule on the obviousness of the '375 Patent in view of the public use or the printed publication which occurred at the University of Northern Iowa combined with the '375 prior art of record. Mid-State has failed to prove, by clear and convincing evidence, that the student proposal and/or student presentation in combination with the other art of record renders claim I of the '375 Patent obvious.

License Agreement

A. Terms Of The License Agreement

Pursuant to the April, 1993 License Agreement, Mid-State received the non-transferrable exclusive right to develop, manufacture, use and market any wheelchair cleaning assembly, subassembly, components, replacement parts, or other products embodying the "licensed patent and technology." The License Agreement further states, with respect to termination:

A. Unless terminated earlier, the term of this Agreement shall be indefinite.

D. Upon termination of this agreement for any reason, nothing herein shall be construed to release any party from its obligation which matured prior to the effective date of termination. MSI, its affiliates or its sublicensees may after the effective date of such termination sell all licensed products in stock and complete construction of all licensed products in the process of manufacture at any time of termination and sell the same, provided that MSI shall pay to S/S royalties on such licensed products as specified in this agreement

E. Upon termination for any cause, other than the expiration of the letters patent granted under the licensed patent, MSI shall no longer have any right to the use of the licensed patent or technology.

Schinzing received royalties under the license agreement for the first 99 units Mid-State sold at a royalty rate of \$400 per machine. As of the date of trial, Mid-State had sold 331 units.

B. Mid-State Breached The License Agreement

Interpretation of a contract is a question of law. Edwards. v. Petrone, 160 Wis.2d 255, 258, 465 N.W.2d 847, 848 (Wis. App. 1990). The express terms of the license agreement provide for the ongoing payment of royalties on these wheelchair washing machines

until the date of termination of the license agreement. Upon termination of the agreement, Mid-State was obligated to sell all licensed products in stock and complete construction of and sell all licensed products in the process of manufacture. Mid-State contemplated that the first 99 wheelchair washing machines sold, which did not include rotary spray arms, were products covered by the license agreement and paid royalties on these products. To the extent that Mid-State breached this agreement after the date of termination, the appropriate measure of damages is the calculation of a reasonable royalty on all machines sold which embodied the licensed patent and/or technology.

C. Disclosure Agreement

This Court need not reach the issue of the enforceability of the May 5, 1993, agreement entered into by S/S New Products and Mid-State Stainless, Inc.

D. Damages

Mid-State is liable to Schinzing for damages equal to reasonable royalties for the 232 wheelchair washing machines for which it has not paid any royalties. Mid-State is liable to Schinzing for damages in the amount of \$92,800.

E. Allegations Of Fraud Not Proven

Mid-State argues that Schinzing used the presumption of validity in the associated patent monopoly for the '375 patent to compel Mid-State to enter into the April, 1993 license agreement. Mid-State argues that, had Schinzing disclosed to Mid-State his failure to provide the PTO material information, Mid-State would have conducted an investigation into the validity of the '375 Patent prior to entering into the license agreement. Under Wisconsin law, a party alleging fraud must demonstrate, by clear and convincing evidence (1) a false representation; (2) that the false representation was made with the intent to defraud and for the purpose of inducing another to act upon it; and (3) that the party relied on the false representation. W.H. Hobbs Supply Company v. Arnst, 270 Wis. 166, 169, 70 N.W.2d 615, 617 (1955). Mid-State has failed to

demonstrate, by clear and convincing evidence, that the patent was invalid and therefore, failed to demonstrate by clear and convincing evidence these necessary elements of common law fraud in the State of Wisconsin.

Based upon the above Findings of Fact and Conclusions of Law, this Court makes the following:

ORDER FOR JUDGMENT

1. Plaintiff Walter Schinzing is entitled to judgment against Defendant Mid-State Stainless, Inc. in the amount of \$92,800, plus interest.

LET JUDGMENT BE ENTERED ACCORDINGLY.

Dated: May 18, 2004

s/Susan Richard Nelson
SUSAN RICHARD NELSON
United States Magistrate Judge

UNITED STATES COURT OF APPEALS
FOR THE EIGHTH CIRCUIT

No. 04-2535

Walter W. Schinzing,

Appellee,

v.

Mid-States Stainless, Inc., etc.,

Appellant.

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Appeal from the United States
District Court for the
District of Minnesota.

The petition for rehearing by the panel filed by Appellee

Schinzing is denied.

(5193-010199)

September 2, 2005

Order Entered at the Direction of the Court:

Clerk, U.S. Court of Appeals, Eighth Circuit